




**Understanding Your Insurance Coverage:**

# **Property Insurance**



Design firms should understand the need for proper insurance to cover the loss or damage to their firm's real and business personal property.

This publication is for general information only. It is not legal advice and should not be construed to define the coverage of the Victor and CNA property insurance policy. Consultation with local legal counsel is recommended.

# Introduction

Many design professionals are well aware of their professional liability exposures in providing professional services. Most design professionals are also aware of their commercial general liability exposures that may arise out of their liability to third parties due to their business operations, such as a slip and fall on the business premises. It is just as important for design professionals to be aware of the risks to their real and business personal property.

Unlike property coverage provided under a commercial general liability policy, the coverage discussed in this publication covers the exposure for business personal property such as valuable papers and equipment as well as the business property of employees of the firm.

As with many types of insurance policies, the coverages and exclusions of a property policy are more complex than can be addressed in one simple publication. Endorsements, state requirements, and other factors can modify the basic policy. The intent of this publication is to cover the basic coverages and exclusions of the Victor and CNA property policy and to address some basic risk management tips. Consultation with your insurance and legal counsel is strongly recommended for a more detailed discussion and for information that will help you decide what type of coverage is right for your firm.

*It is just as important for design professionals to be aware of the risks to their **real and business** personal property.*



# What types of property are covered by the property policy?

*This coverage does not cover **third-party liability** (slip and fall) of those who may be on your premises.*

*The property policy provides **limited coverage** for business property used by employees at other locations.*

There are several coverage categories under the property policy, but generally the policy covers:

buildings and structures at the premises described on the declarations page and business personal property (a specified value, not all business property) located in or on the buildings at the described premises or in the open (or in a vehicle) within 1,000 feet of the described premises.

This not only includes property owned by the business, but also property owned by others and in the custody, care, and control of the insured.

It is important to remember that this coverage does not cover third-party liability (slip and fall) of those who may be on your premises. For a covered loss, the Victor and CNA policy covers the loss or damage of the covered property as well as the business personal property of the firm and includes the following categories.

## Valuable Papers/Media

All businesses rely upon paper and various forms of media to provide professional services and operate their businesses. The property policy also covers valuable papers that may be held off site at a storage facility. Assume that a water main breaks overnight and floods the office, damaging drawings and specifications that had been printed and assembled for bid distribution. The policy would cover the cost of replacing those drawings and specifications.

## Accounts Receivable

All businesses rely upon timely invoices for receipt of monies owed for professional services and other business transactions. Assume the damage from the water main break discussed on the last page was particularly severe in the accounting department, damaging the majority of accounting files. This coverage would cover the loss of outstanding accounts that you are unable to collect due to lost or damaged records.

## On-Premises Business Property

All businesses own property. This policy covers the replacement of business property such as computer equipment, furniture, and other items, damaged or lost due to a covered event.

## Off-Premises Business Property

Many firms have employees that either work full or part-time from the employee's home. The property policy provides limited coverage for business property used by employees at other locations. This also includes cell phones and laptops on a worldwide basis. However, depending upon the value of off-premises property, a separate Inland Marine policy may be required to fully cover a potential loss.

## Specialized Equipment

Many design professionals use specialized equipment that is uncommon in other types of businesses. For example, an architect or engineer may have specialized drafting equipment or models. A surveyor may have specialized surveying equipment. If the equipment was purchased by the firm for business purposes, it is considered business property and covered by the policy.

## Personal Effects

Victor and CNA's property policy covers the loss or damage to the personal effects of officers, partners, and employees of the firm that are on the business premises during a covered loss.

## Employee Dishonesty

The property policy will cover the loss or damage to business personal property, including money and securities, that result from an employee's dishonest acts, either committed alone or in collusion with other employees that are not partners in the firm.

## Other Covered Property

The policy provides limited coverage for trees, shrubs and plants, money and securities, signs, and other types of property that are not addressed in this publication. It is advisable that the insured read the policy to become familiar with the types of property covered and the coverage limits.

## What is a "covered cause of loss?"

Remember that the property policy provides coverage for the loss or damage to real or business personal property. The loss must be one that is covered by the policy terms. There are exclusions and limitations to the coverage, which include loss or damage due to:

- earth movement, such as earthquake, sinkhole, mine subsidence, and volcanic eruption;
- government actions, including the seizure or destruction of property by order of governmental authority, with the exception of damage or loss of property due to a governmental entity attempting to prevent the spread of fire;
- nuclear hazard;

*The loss must be one that is **covered** by the policy terms.*

*Loss or damage to property due to **computer virus** is not covered under the property policy.*

- power failure;
- war and military action; and
- water, such as flood or tidal waves. However, loss or damage resulting from water backing up from a sewer or drain is covered, but water emanating from a sump pump or other similar device designed to prevent overflow is not covered.

## **What about property loss or damage due to theft?**

Loss or damage to property due to theft is covered under the property policy. This includes loss or damage caused by theft as well as the stolen item. For example, a thief rips open a desk drawer and steals a laptop. The replacement cost of the broken desk drawer is covered by the property policy as well as the stolen laptop.

## **What about property loss or damage due to a computer virus?**

Loss or damage to property due to computer virus is not covered under the property policy. A computer virus is defined in the policy as:

a software introduced or implanted without authorization into the computer's hardware or software which causes the corruption, distortion, deletion, destruction, unauthorized copying, or loss of functionality.

The policy also excludes the intentional and malicious use of a computer to obtain unauthorized access to information stored on the computer's hardware or software.



# What is the Inland Marine policy and why is it important?

As previously mentioned, the Victor and CNA policy provides coverage for equipment lost or damaged while away from the scheduled location. However, coverage is only provided up to a certain limit. An Inland Marine policy, despite what the name suggests, is not coverage for watercraft use on inland bodies of water. An Inland Marine policy provides additional coverage for business personal property beyond the limits of the property policy.

Surveying equipment is often used away from the scheduled location. Due to the cost of surveying equipment, replacement after a covered loss may exceed the policy limits of the property policy for property away from the scheduled location. The Inland Marine policy would provide additional coverage for the replacement cost of the surveying equipment.

*An **Inland Marine** policy provides additional coverage for business personal property.*



# Risk Management

## How do I manage the risk of property loss or damage?

Risk management is an essential element in every successful business. Design firms that incorporate risk management procedures, whether they are for professional liability exposures or the risk of loss or damaged property, are the firms that enjoy the most success. Following are some tips for managing the risks of property loss or damage.

### List Property Locations

It is important to make sure that all owned and leased properties are listed on the declarations page. Because the property policy only provides coverage for properties listed and the business personal property at those locations, it is important that all such properties, including storage locations, are listed on the policy.

### Inventory Your Property

A key element required for your property policy to cover the replacement cost of your lost or damaged property is a complete record of what the firm owns and the condition of the property. Many firms keep detailed records that list the office furniture, computer equipment and software, specialized equipment, and other important items. Photographs or videos of each unique item and examples of typical or standard items can be useful in the event of lost or damaged property. If the cost can be justified, some firms use electronic bar coding on each piece of business property. This makes tracking and updating the inventory list easier.

In addition to inventorying business property, it is also important that the location of each item is documented, especially business property that may be used by employees at other locations. It was previously noted that the property policy will cover the loss or damage to business property in an employee's home. An agreement with the employee regarding working from home should include a section that lists the business property that the employee will be using.

Similarly, when business property is used at other locations, such as a construction site, the client's or consultant's offices, or during business travel, procedures should be implemented that tracks those items that have been "checked out." Tracking should include not only the business property that is being "checked out," but also the destination of the employee and the condition of the item when it was "checked out" and when it was returned.

*Photographs or videos of each unique item and examples of typical or standard items can be useful in the event of lost or damaged property.*



## Retain Your Records

As noted above, the inventory list of business property is an important risk management tool to help a firm recover from a loss or damage to business property. It has also been discussed that the policy will cover loss of accounts receivables, but an accurate record of those accounts is also required.

Records retention, computer systems backup, and proper storage of this information is an important risk management consideration. Procedures should be established that identify what business records (i.e., accounting, inventory list, etc.) should be kept, what form they should be kept in (paper or electronic), and where those records should be kept. Ideally, records should be kept in a safe and secure location, which may be away from the business premises.

Computer systems backup is just as important as records retention and records storage. All computer records, including accounting files and files relating to professional services, should be backed up regularly and stored in a safe location.

## Install Antivirus Software

So much of a design firm's business is dependent upon computer equipment and software. Since backup of information on computer systems is an important risk management tool, the installation of antivirus software for the network and each computer is critically important. It was noted previously that loss or damage due to a computer virus is not covered by the property policy, so proper risk management procedures, including antivirus software, to protect the firm's computers is an essential risk management tool. There are many options for antivirus software, so care should be given to select the software that will meet your firm's needs. Be sure that the software is updated at appropriate intervals.

## Protect Against Power Losses and Surges

The loss of power or a power surge can also lead to a loss or damaged business property. For example, a loss of power or power surge may cause damage to your electronic systems and equipment. An electrical backup system and surge protectors on electronic equipment are risk management tools that can help minimize the risk of loss due to a power failure or surge.

As mentioned above, power failure is excluded under the Victor and CNA property policy. The need to manage this risk is even greater since the cost of replacement may be a cost the design firm will have to bear without insurance coverage.

*Records retention, computer systems backup, and proper storage of this information is an important risk management consideration.*

*The **loss of power** or a power surge can also lead to a loss or damaged business property.*

*It is important for the insured firm to **read and understand** what is covered and excluded by the policy.*

*Comprehensive **review** of the property policy is strongly encouraged.*

## Conclusion

Design firms face many types of risks that should be identified and managed. Professional liability, liability to others or general liability, and potential loss or damage to business personal property are three examples of risks that successful firms need to manage. One of the initial steps in managing the risk of loss or damage to business personal property is to determine appropriate insurance and then obtain the proper insurance coverage from a secure and reliable carrier.

There are many forms of insurance coverage that address the risks design firms face, and property insurance covers the risks of loss or damaged business personal property. Once a policy has been selected, it is important for the insured firm to read and understand what is covered and excluded by the policy.

This publication addresses and attempts to explain, while also providing examples, of some of the typical types of business personal property. Examples of business personal property and possible losses include accounts receivables, on-site and off-site business personal property, specialized equipment, and employee dishonesty, to name a few; these are all covered by the Victor and CNA property policy. However, this publication does not address the complete list of business personal property that is covered by the Victor and CNA property policy. Comprehensive review of the property policy is strongly encouraged.

This publication also addresses some of the typical exclusions for loss or damage to business personal property due to water or power issues. The issues of computer viruses and loss or damage that may arise out of theft have also been discussed.

There are certain risk management steps design firms can implement. Firms can implement comprehensive inventory and records retention procedures, including procedures to back up and properly store computer files, and procedures to protect against computer viruses, power losses, and power surges. These steps can help a firm identify and manage risks and, therefore, remain a successful business operation.





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